

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>CHARLEVOIX COUNTY ROAD COMMISSION</b>	County <b>CHARLEVOIX</b>
Audit Date <b>12/31/05</b>	Opinion Date <b>3/31/06</b>	Date Accountant Report Submitted to State: <b>6/6/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

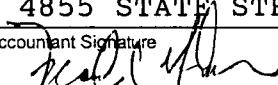
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<b>x</b>		
Reports on individual federal financial assistance programs (program audits).			<b>x</b>
Single Audit Reports (ASLGU).			<b>x</b>

Certified Public Accountant (Firm Name) <b>GARDNER, PROVENZANO, SCHAUMAN, &amp; THOMAS, P.C.</b>			
Street Address <b>4855 STATE STREET</b>	City <b>SAGINAW</b>	State <b>MI</b>	ZIP <b>48603</b>
Accountant Signature 		Date <b>6/6/06</b>	

CHARLEVOIX COUNTY ROAD COMMISSION  
BOARD OF COUNTY ROAD COMMISSIONERS

Doug Way	Chairman
Wayne Saunders	Vice-Chairman
Keith Ogden	Member
Patrick Harmon	Manager
Shelley Kondrat	Clerk
James Vanek	Staff Engineer

## Contents

	<u>Page Number</u>
Independent Auditor's Report	
Management's Discussion and Analysis	1
Financial Statements	
Statement of Net Assets and Governmental Fund Balance Sheet	5
Reconciliation of Governmental Fund Balance to Net Assets of Governmental Activities	6
Statement of Activities and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Fund to the Statement of Activities	8
Notes to Financial Statements	9
Required Supplemental Information	20
Budgetary Comparison Schedule	21
Additional Supplemental Information	22
Analysis of Revenues, Expenditures, and Changes in Fund Balance	23
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	24



# Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner  
Giacamo Provenzano  
James R. Schauman  
Heather A. Thomas

## INDEPENDENT AUDITOR'S REPORT

March 31, 2006

Honorable Chairman  
Members of the County Road Commission  
County of Charlevoix, Michigan

We have audited the accompanying financial statements of the governmental activities of the Charlevoix County Road Commission, a component unit of Charlevoix County, as of and for the year ended December 31, 2005, which comprise the Road Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Charlevoix County Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Charlevoix County Road Commission as of December 31, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Honorable Chairman  
Members of the County Road Commission  
County of Charlevoix, Michigan  
Page Two  
March 31, 2006

In accordance with Government Auditing Standards, we have also issued a report dated March 31, 2006 on our consideration of the Charlevoix County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The additional supplemental information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements of Charlevoix County Road Commission and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

  
Certified Public Accountants

CHARLEVOIX COUNTY ROAD COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

**Introduction**

Charlevoix County Road Commission (CCRC) is a single purpose government providing road maintenance and construction on certified county roads in Charlevoix County, Michigan.

In 2003, the Governmental Accounting Standards Board Statement Number 34 (GASB 34) changed the Road Commission's financial statements from modified accrual to full accrual accounting. Government financial statements are based on the modified accrual accounting method, while the term government-wide statements refer to the newly required full accrual method. Full accrual requirements recognize roads, bridges, signals, etc., as capitalized assets; whereas modified accrual does not. Single purpose governments are allowed to show both modified accrual and full accrual statements on a single page.

CCRC audited financial activities are presented herein. These statements include the following:

- Statement of Net Assets and Governmental Fund Balance Sheet,
- Reconciliation of Governmental Fund Balance to Net Assets of Governmental Activities,
- Statement of Activities and Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance, and
- Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund balance of Governmental Fund to the Statement of Activities for the Year Ended December 31, 2005.

CHARLEVOIX COUNTY ROAD COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

**Condensed Financial Statements**

Following are CCRC condensed government-wide financial statements. The reports include current and prior year balances for comparison.

**Condensed Statement of Net Assets**

Assets	2005	2004
General fund	\$ 1,990,959	\$ 2,019,836
Capital assets	18,200,885	16,859,635
Total Assets	<u>\$ 20,191,844</u>	<u>\$ 18,879,471</u>
Liabilities		
General fund liabilities	\$ 166,039	\$ 187,691
Liabilities associated with long-term debt	41,807	43,063
Total Liabilities	<u>207,846</u>	<u>230,754</u>
Net Assets		
General fund net assets	1,783,113	1,789,082
Invested in capital assets	18,200,885	16,859,635
Total Net Assets	<u>\$ 19,983,998</u>	<u>\$ 18,648,717</u>

**Condensed Statement of Activities**

Revenue		
Intergovernmental	\$ 4,961,783	\$ 5,402,203
Other contributions and service charges	678,182	597,842
Other	89,412	22,716
Total Revenue	<u>5,729,377</u>	<u>6,022,761</u>
Expenses		
Primary maintenance	786,533	734,772
Local maintenance	1,388,633	1,676,840
Trunkline maintenance	488,957	394,057
Administrative	410,898	432,374
Depreciation	1,319,075	1,259,955
Total Expenses	<u>4,394,096</u>	<u>4,497,998</u>
Change in Net Assets	<u>\$ 1,335,281</u>	<u>\$ 1,524,763</u>

**Additional Comments**

During 2005, the beginning net assets increased by \$1,335,281 or 7%. As in 2004, the increase in net assets reflects a greater investment in new capital assets, i.e. road improvements and equipment purchases, than the expenses associated with capital assets such as depreciation.

CHARLEVOIX COUNTY ROAD COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

**Additional Comments (continued)**

Compared to the 2004 \$602,899 fund balance increase, 2005 ended with a \$7,225 or .4% decrease of beginning fund balance. Management believes this is an insignificant change and is confident the remaining \$1,824,920 fund balance provides sufficient working capital to support future CCRC operations.

**Budget**

CCRC's budget is prepared in accordance with state law using the modified accrual method.

**Original Budget Versus Amended Budget**

The 2005 beginning budget was adopted in December 2004. CCRC periodically reviews and amends the budget as information becomes available or management's plans change.

Total budgeted revenue increased by \$532,130 from the original budget, mainly due to:

- MTF funds and Federal/State revenues were greater than originally anticipated.
- The gain realized on the disposal of equipment was more than anticipated.

Total budgeted expenditures decreased by \$89,813 from the original budget, mainly due to distributive expense being less than anticipated.

**Amended Budget Versus Actual**

Total revenue received was less than the final amended budgeted revenue by \$306,791. The difference was due to the overestimation of November/December 2005 MTF funds received in 2006.

Total actual expenditures were less than the final amended budget amounts by \$88,023. Even though Administrative expense exceeded the final amended budget amount by \$132,224 due to State maintenance/non-maintenance overhead being greater than anticipated, the positive variance was due to:

- Federal/State heavy maintenance project expenses came in under the amounts that were originally bid.
- Regular maintenance expense was less than anticipated.



CHARLEVOIX COUNTY ROAD COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

**Capital Assets and Long Term Debt**

CCRC capital assets, including infrastructure (roads, bridges and signals) are valued, for full accrual accounting purposes, net of accumulated depreciation, at \$18,200,885.

Land and improvements	\$ 2,108,418
Buildings and improvements	1,556,671
Road equipment	4,465,039
Other equipment	222,736
Infrastructure and improvements	<u>22,440,218</u>
Total Capital Assets	30,793,082
Accumulated Depreciation	<u>(12,592,197)</u>
Net Capital Assets	<u>\$ 18,200,885</u>

Additional capital assets information is located in the financial statements, Note 4.

The Charlevoix County Road Commission has no long term debt other than compensated absences in the amount of \$41,807.

**Other**

Management is not currently aware of any known facts, decisions, or conditions expected to have a significant effect on the CCRC future financial condition.

**Contacting the Road Commission's Financial Management**

This financial report provides the motoring public, citizens and other interested parties with the Road Commission's general financial overview and accountability for money it receives. If you require further financial information, please contact the Charlevoix County Road Commission administrative office at:

1251 Boyne Avenue  
P.O. Box 39  
Boyne City, MI 49712-0039

(231) 582-7330

CHARLEVOIX COUNTY ROAD COMMISSION  
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET  
DECEMBER 31, 2005

	General Fund	Adjustments	Statement of Net Assets
<b>ASSETS</b>			
Cash	\$ 20,119	\$ -	\$ 20,119
Interest bearing accounts	663,884	-	663,884
Accounts Receivable			
State Transportation Department	577,685	-	577,685
Other	412	-	412
Inventories			
Road Materials	685,026	-	685,026
Equipment, materials, and parts	43,833	-	43,833
Capital Assets			
Land and land improvements	-	2,108,418	2,108,418
Other capital assets, net of accumulated depreciation	-	16,092,467	16,092,467
Total Assets	<u>\$ 1,990,959</u>	<u>\$ 18,200,885</u>	<u>\$ 20,191,844</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 17,630	\$ -	\$ 17,630
Accrued liabilities	27,168	-	27,168
Advances	118,525	-	118,525
Deferred revenue	2,716	-	2,716
Long-term liabilities	-	41,807	41,807
Total Liabilities	<u>166,039</u>	<u>41,807</u>	<u>207,846</u>
<b>FUND BALANCE/NET ASSETS</b>			
Fund Balances:			
Reserved for inventories	43,833	(43,833)	-
Unreserved			
Undesignated	1,781,087	(1,781,087)	-
Total Fund Balance	<u>1,824,920</u>	<u>(1,824,920)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 1,990,959</u>		
<b>Net Assets</b>			
Invested in capital assets		18,200,885	18,200,885
Restricted for primary		1,409,775	1,409,775
Unrestricted		373,338	373,338
Total Net Assets		<u>\$ 19,983,998</u>	<u>\$ 19,983,998</u>

The accompanying notes are an integral part of these financial statements.

CHARLEVOIX COUNTY ROAD COMMISSION  
RECONCILIATION OF GOVERNMENTAL FUND BALANCE TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2005

Total governmental fund balance	\$ 1,824,920
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	18,200,885
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	(41,807)
Net Assets of Governmental Activities	<u>\$ 19,983,998</u>

The accompanying notes are an integral part of these financial statements.

CHARLEVOIX COUNTY ROAD COMMISSION  
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF  
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2005

	General Fund	Adjustments	Statement of Activities
Revenue			
Transportation fund	\$ 3,011,129	\$ -	\$ 3,011,129
Economic development fund	287,985	-	287,985
Federal grants	1,155,391	-	1,155,391
City and Township contributions	507,278	-	507,278
Other contributions and service charges	678,182	-	678,182
Other revenues	89,412	-	89,412
Total Revenue	<u>5,729,377</u>	<u>-</u>	<u>5,729,377</u>
Expenditures/Expenses			
Primary preservation - structural improvements	1,543,589	(1,543,589)	-
Local preservation - structural improvements	532,529	(532,529)	-
Primary maintenance	885,388	(98,855)	786,533
Local maintenance	1,564,440	(175,807)	1,388,633
Trunkline maintenance	488,957	-	488,957
Administrative	412,154	(1,256)	410,898
Net equipment expense	88,303	(88,303)	-
Net capital outlay			
Capital outlay	584,244	(584,244)	-
Depreciation	(363,002)	363,002	-
Depreciation	-	1,319,075	1,319,075
Total Expenditures/Expenses	<u>5,736,602</u>	<u>(1,342,506)</u>	<u>4,394,096</u>
Excess of Revenue Over (Under) Expenditures	(7,225)	7,225	-
Change in Net Assets	-	1,335,281	1,335,281
Fund Balance/Net Assets - Beginning of Year	<u>1,832,145</u>	<u>16,816,572</u>	<u>18,648,717</u>
Fund Balance/Net Assets - End of Year	<u>\$ 1,824,920</u>	<u>\$ 18,159,078</u>	<u>\$ 19,983,998</u>

The accompanying notes are an integral part of these financial statements.

CHARLEVOIX COUNTY ROAD COMMISSION  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2005

Net change in fund balance \$ (7,225)

Amounts reported for governmental activities are  
different because:

Governmental fund reports capital outlays as expenditures. However,  
in the statement of activities, the cost of these assets is depreciated  
over their estimated useful lives.

Expenditures for capital assets	2,660,325
Current year depreciation	(1,319,075)

In the Statement of Activities, liabilities at the end of the period for  
compensated absences are adjusted to their current balance,  
whereas in governmental funds, an expenditure is reported when paid. 1,256

Change in Net Assets of Governmental Activities	<u>\$ 1,335,281</u>
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The accompanying notes are an integral part of these financial statements.

CHARLEVOIX COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies

The Charlevoix County Road Commission's financial statements are prepared in accordance with United States generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with GASB pronouncements. The more significant accounting policies established in GAAP and used by the commission are discussed below.

In June 1999, the GASB unanimously approved Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments". Certain of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the commission's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for the commission's activities, including infrastructure (roads, bridges, signals, etc.).

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements).

Reporting Entity

The commission is governed by a three-member board of county road commissioners appointed by the Charlevoix County Board of Commissioners. The commission is a component unit of the Charlevoix County and its financial statements are an integral part of the comprehensive annual financial report of the Charlevoix County.

CHARLEVOIX COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

Reporting Entity (continued)

Based upon GASB Statement 14, which establishes criteria for determining the reporting entity, these financial statements present the Charlevoix County Road Commission, a discretely presented component unit of Charlevoix County, and include the commission's general operations fund.

Basic Financial Statements -- Government -Wide Statements

The statement of net assets and the statement of activities display information about the commission as a whole. The purpose of these statements is to distinguish between activities that are governmental and those that are considered business-type activities. Currently, all commission activity is considered governmental.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach is different from the manner in which the governmental fund financial statements are prepared. Therefore, a reconciliation is included to identify the relationship between the government-wide statements and the statements for the governmental fund.

The government-wide statement of activities presents a comparison between program expenses and program revenues. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program expenses and revenues identifies the extent to which each program is self-financing or draws from the resources of the commission.

This government-wide approach is focused more on the sustainability of the commission as an entity and the change in the commission's net assets from the current year's activities.

CHARLEVOIX COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

Basic Financial Statements – Fund Financial Statements

The accounts of the commission are organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The commission's operations are accounted for in one fund, the general operations fund.

Fund financial statements generally report detailed information about the governmental entity. The focus of the governmental financial statements is on major funds rather than reporting all funds by type. The commission has only one major fund and no non-major funds.

The governmental fund is accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. According to this basis, revenues are recognized when they become measurable and available. Available is defined as being received within two months of year end. Expenditures are recognized in the period in which the fund liability is incurred, if measurable.

Cash and Cash Equivalents

The commission's cash and cash equivalents are considered to be demand deposits and short-term investments with a maturity date of three months or less when acquired.

Inventories

Inventories, which consist of road materials and equipment supplies, are valued at cost (first-in/first-out and average cost). Costs are recorded as assets when purchased, and charged to expense when used.



CHARLEVOIX COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

Capital Assets and Depreciation

Capital assets purchased or acquired are reported at historic cost. Contributed assets are reported at fair market value when received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation is computed on the sum-of-the-year's-digits methods for road equipment and straight-line method for all other capital assets over the following estimated useful lives:

	<u>Years</u>
Buildings	25 – 50
Road Equipment	5 – 8
Other Equipment	4 – 20
Infrastructure	5 – 50

GASB 34 requires the commission to report and depreciate infrastructure assets in its government-wide statements. Infrastructure assets include roads, bridges, traffic signals, etc.

Budgets and Budgetary Accounting

The commission follows these procedures in establishing the budgetary data reflected in the financial statements:

1. A budget, (prepared on the modified accrual basis of accounting), is submitted to the Charlevoix County Board of Road Commissioners prior to January 1 of each year. The budget includes proposed expenditures and a means of financing them.
2. The Board of Road Commissioners' approved budget is then submitted to the Charlevoix County Board of Commissioners.
3. The budget is adopted on a basis consistent with generally accepted accounting principles and revised as deemed necessary during the year.

CHARLEVOIX COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting (continued)

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended December 31, 2005, certain unfavorable variances occurred between budgeted and actual expenditures as listed below:

	Amended Budget	Actual	Actual Over Budget
Trunkline maintenance	\$ 472,108	\$ 488,957	\$ 16,849
Administrative (net)	\$ 279,930	\$ 412,154	\$ 132,224
Equipment expense (net)	\$ 44,947	\$ 88,303	\$ 43,356

NOTE 2--Cash, Cash Equivalents and Investments

The county road commission is legally authorized to deposit and invest in the following:

1. In bonds, securities and other obligations of the United States or agency or instrumentality of the United States.
2. In certificates of deposit, saving accounts, deposit accounts, or depository receipts of a bank which is a member of the FDIC, a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration.
3. In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the purchase date.
4. In United States government or federal agency obligation repurchase agreements.
5. In banker's acceptance of United States banks.
6. In obligations of the state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
7. In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

State statutes require that certificates of deposit, savings accounts, deposit accounts and depository receipts be made with banks having a place of business in the State of Michigan.

CHARLEVOIX COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 2--Cash, Cash Equivalents and Investments (continued)

At year-end, the carrying amount of the commission's deposits was \$684,003 and the bank balance was \$870,414. Of the bank balance \$100,000 was covered by federal depository insurance and \$770,414 was uninsured and uncollateralized.

The commission's deposits are categorized below according to level of credit risk:

- Category 1 represents the county road commission's insured or collateralized deposits with securities held by the commission or by its agent in the commission's name.
- Category 2 represents the county road commission's collateralized deposits with securities held by the pledging financial institution's trust department or agent in the county road commission's name.
- Category 3 represents the county road commission's uncollateralized deposits including any bank balances that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the county road commission's name.

	Category			Bank Balance	Carrying Amount
	1	2	3		
Demand deposits	\$ -	\$ -	\$ 19,919	\$ 206,530	\$ 19,919
Time deposits	-	-	663,884	663,884	663,884
Cash on hand	-	-	200		200
Totals	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 684,003</u>	<u>\$ 870,414</u>	<u>\$ 684,003</u>

It is the policy of the Commission to deposit excess monies with the Charlevoix County Treasurer; investments are made at her discretion.

NOTE 3--Pension Plan

Plan Description

The Road Commission's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board, Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the

CHARLEVOIX COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 3--Pension Plan (continued)

Plan Description (continued)

participants in MERS. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing the Municipal Employees' Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The Road Commission is required to contribute at an actuarially determined rate; the current rate is 14.17% of annual covered payroll. Employees are currently not required to contribute to the plan. The contribution requirements of the Road Commission are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Road Commission depending on the MERS contribution program adopted by the Road Commission.

Annual Pension Cost

For the year ended December 31, 2005, the Road Commission's annual pension cost of \$135,328 for MERS was equal to the Road Commission's minimum required contributions. The Road Commission's actual contribution for 2005 was \$155,640. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increase of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit and (d) the assumption that benefits will increase 2.5% per year

CHARLEVOIX COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 3--Pension Plan (continued)

Annual Pension Cost (continued)

after retirement for persons under Benefit E-1 or E-2. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect market value. The Road Commission's actuarial accrued liability is \$1,235,538 as of December 31, 2004, the date of the last actuary report.

Three-year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12-31-03	\$ 110,628	100%	\$ -
12-31-04	\$ 129,708	100%	\$ -
12-31-05	\$ 135,328	100%	\$ -

The Road Commission's actual contribution amount was computed under the Accelerated Funding Credits program adopted by MERS in 1984. The program allows municipalities with funded percentages of 110% or greater to make no contributions.

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets [a]</u>	<u>Actuarial Accrued Liability Entry Age [b]</u>	<u>Unfunded AAL (UAAL) [b-a]</u>	<u>Funded Ratio [a/b]</u>	<u>Covered Payroll [c]</u>	<u>UAAL as a % of Covered Payroll [b-a]/[c]</u>
12-31-02	\$ 4,118,618	\$ 4,738,978	\$ 620,360	87%	\$ 1,271,667	49%
12-31-03	\$ 4,225,977	\$ 4,907,293	\$ 681,316	86%	\$ 1,308,565	52%
12-31-04	\$ 4,355,228	\$ 5,590,766	\$ 1,235,538	78%	\$ 1,292,199	96%

CHARLEVOIX COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 4--Capital Assets and Depreciation

A summary of the changes in capital assets is as follows:

	Balance 12-31-2004	Additions	Retirements	Balance 12-31-2005
Capital Assets Not Being Depreciated				
Land and improvements	\$ 82,574	\$ -	\$ -	\$ 82,574
Land and improvements, infrastructure	1,668,525	357,319	-	2,025,844
Total Land and improvements	<u>1,751,099</u>	<u>357,319</u>	<u>-</u>	<u>2,108,418</u>
Other Capital Assets				
Buildings and improvements	1,554,649	2,022	-	1,556,671
Road equipment	4,043,617	580,172	158,750	4,465,039
Other equipment	220,686	2,050	-	222,736
Infrastructure and improvements	20,721,418	1,718,800	-	22,440,218
Total Other Capital Assets	<u>26,540,370</u>	<u>2,303,044</u>	<u>158,750</u>	<u>28,684,664</u>
Total Capital Assets	<u>28,291,469</u>	<u>2,660,363</u>	<u>158,750</u>	<u>30,793,082</u>
Accumulated Depreciation				
Buildings and improvements	471,723	34,828	-	506,551
Road equipment	3,223,179	320,140	158,750	3,384,569
Other equipment	174,615	8,034	-	182,649
Infrastructure and improvements	7,562,317	956,111	-	8,518,428
Total Accumulated Depreciation	<u>11,431,834</u>	<u>1,319,113</u>	<u>158,750</u>	<u>12,592,197</u>
Total Net Capital Assets	<u>\$ 16,859,635</u>	<u>\$ 1,341,250</u>	<u>\$ -</u>	<u>\$ 18,200,885</u>

NOTE 5--Long-Term Liabilities

Compensated Absences - Employees accumulate 8 hours of sick leave per month. A maximum of 520 hours can be accumulated. Upon termination, the employee receives no payment for the accumulated sick leave.

Employees can carry over up to 5 days of vacation per year. Accumulated vacation is fully paid to the employee upon termination of employment. Accumulated vacation amounted to \$41,807 at the end of 2005.

CHARLEVOIX COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 6--Risk Management

The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2005, the Road Commission participated in the Michigan County Road Commission Self Insurance Pool (SIP), a public entity risk pool currently operating as a common risk management program for road commissions in the State of Michigan. The Road Commission pays an annual premium to SIP for its general insurance coverage. The SIP is self-sustaining through member premiums.

During 2005 the Road Commission also participated in the County Road Association Self Insurance Fund (SIF) for its workers' compensation benefits. The SIF is also a common risk management program for road commissions in the State of Michigan and is self-sustaining through premiums.

In the event of unusually high claims, both the SIP and the SIF have the authority to bill the member road commissions retroactively. The Road Commission continues to carry commercial insurance for other risks of loss, including employee health and accident and life insurance.

NOTE 7--Contingency

The Commission has received significant financial assistance from state agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Commission. In the opinion of management, any such disallowed claims could have a material effect on any of the financial statements included herein or on the overall financial position of the Commission at December 31, 2005.

CHARLEVOIX COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 7—Contingency (continued)

Federal financial awards received under the planning and construction program in the amount of \$1,155,391 are administered by the State of Michigan. The Road Commission has no responsibility regarding fiscal or compliance controls over such assistance.



**REQUIRED SUPPLEMENTAL INFORMATION**

CHARLEVOIX COUNTY ROAD COMMISSION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL OPERATIONS FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005

	Original Budget	Final Budget	Actual	Actual Vs. Final Budget Favorable (Unfavorable)
Revenue				
Transportation fund	\$ 3,120,000	\$ 3,606,254	\$ 3,011,129	\$ (595,125)
Economic development fund	-	-	287,985	287,985
Federal and State grants	1,165,938	1,358,467	1,155,391	(203,076)
City and Township contributions	800,000	462,201	507,278	45,077
Other contributions and service charges	405,000	507,608	678,182	170,574
Other revenues	13,100	101,638	89,412	(12,226)
Total Revenue	<u>5,504,038</u>	<u>6,036,168</u>	<u>5,729,377</u>	<u>(306,791)</u>
Expenditures				
Heavy maintenance	1,988,282	2,165,759	2,076,118	89,641
Regular maintenance	3,058,572	2,637,637	2,449,828	187,809
Trunkline maintenance	380,000	472,108	488,957	(16,849)
Administrative (net)	409,300	279,930	412,154	(132,224)
Equipment expense (net)	48,284	44,947	88,303	(43,356)
Capital outlay (net)	30,000	224,244	221,242	3,002
Total Expenditures	<u>5,914,438</u>	<u>5,824,625</u>	<u>5,736,602</u>	<u>88,023</u>
Excess of Revenues Over (Under) Expenditures	(410,400)	211,543	(7,225)	(218,768)
Fund Balance, Beginning of Year	1,832,145	1,832,145	1,832,145	-
Fund Balance, End of Year	<u>\$ 1,421,745</u>	<u>\$ 2,043,688</u>	<u>\$ 1,824,920</u>	<u>\$ (218,768)</u>

**ADDITIONAL SUPPLEMENTAL INFORMATION**

CHARLEVOIX COUNTY ROAD COMMISSION  
ANALYSIS OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - - SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005

	Appropriated		County	
	Primary Roads	Local Roads	Road Fund	Total
Revenues				
Federal	\$ 1,155,391	\$ -	\$ -	\$ 1,155,391
Transportation Fund	1,943,795	1,067,334	-	3,011,129
Engineering	6,500	3,500	-	10,000
Snow removal allocation	59,230	81,793	-	141,023
Total Transportation	2,009,525	1,152,627	-	3,162,152
Economic Development Fund	242,754	45,231	-	287,985
Township contributions	20,000	487,278	-	507,278
Other				
Trunk line maintenance	-	-	428,308	428,308
Trunk line non- maintenance	-	-	63,554	63,554
Salvage sales	-	-	1,509	1,509
Interest earned	26,220	-	7,832	34,052
Other	24,771	-	64,377	89,148
Total Other	50,991	-	565,580	616,571
Total Revenues	3,478,661	1,685,136	565,580	5,729,377
Expenditures				
Preservation - Structural Improvements	1,543,589	532,529	-	2,076,118
Maintenance				
Roads	422,527	956,598	-	1,379,125
Winter maintenance	419,359	586,981	-	1,006,340
Traffic control	43,502	20,861	-	64,363
Total Maintenance	885,388	1,564,440	-	2,449,828
Other				
Trunk line maintenance	-	-	488,957	488,957
Administrative expense	221,194	190,960	-	412,154
Equipment expense	490,276	846,038	92,733	1,429,047
Less: equipment rental	(459,979)	(793,763)	(87,002)	(1,340,744)
Capital outlay	388,223	-	196,021	584,244
Less: depreciation	(166,981)	-	(196,021)	(363,002)
Total Other	472,733	243,235	494,688	1,210,656
Total Expenditures	2,901,710	2,340,204	494,688	5,736,602
Excess (Deficiency) of Revenues Over				
(Under) Expenditures	576,951	(655,068)	70,892	(7,225)
Other Financing Sources (Uses)				
Optional transfers	(575,000)	575,000	-	-
Excess (Deficiency) of Revenues				
and Other Sources Over (Under)				
Expenditures and Other Uses	1,951	(80,068)	70,892	(7,225)
Fund Balances, Beginning	1,407,824	-	424,321	1,832,145
Interfund Adjustment	-	80,068	(80,068)	-
Fund Balances, Ending	\$ 1,409,775	\$ -	\$ 415,145	\$ 1,824,920

See independent auditor's report.



# Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner  
Giacamo Provenzano  
James R. Schauman  
Heather A. Thomas

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

March 31, 2006

Members of the Board  
of County Road Commissioners  
of Charlevoix County  
Charlevoix, Michigan

We have audited the financial statements of the governmental activities of the Charlevoix County Road Commission, a component unit of Charlevoix County, as of and for the year ended December 31, 2005, which collectively comprise the Charlevoix County Road Commission's basic financial statements, and have issued our report thereon dated March 31, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Charlevoix County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect Charlevoix County Road Commission's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements.

Members of the Board  
of County Road Commissioners  
of Charlevoix County  
Page Two  
March 31, 2006

We noted an absence of appropriate segregation of duties consistent with appropriate control objectives.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Charlevoix County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of management and the Board of County Road Commissioners. However, this report is a matter of public record and its distribution is not limited.



Certified Public Accountants



# Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner  
Giacamo Provenzano  
James R. Schauman  
Heather A. Thomas

March 31, 2006

To the Members of the Board  
of County Road Commissioners of Charlevoix County  
Charlevoix, Michigan

In planning and performing our audit of the financial statements of the Charlevoix County Road Commission for the year ended December 31, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of two matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes our comments and our suggestions regarding those matters. This letter does not affect our report dated March 31, 2006, on the financial statements of the Charlevoix County Road Commission.

## Documentation of Credit Card Payments

Our review of supporting documentation for credit card payments revealed that, generally speaking, credit card payments were well supported. However, we remind you that for items like meals, complete documentation includes a "contemporaneous record" of the purpose of the meeting and a listing of the individuals present.

## Township Contributions

As part of our analysis of township contributions, we reviewed township agreements on file to determine that an agreement, in fact, existed and that the actual project costs approximated the anticipated costs. We noted that while most agreements were available for review, there were instances where we unable to locate or identify the existence of a signed agreement. We suggest that additional care be focused on obtaining a signed agreement for all projects undertaken and maintaining a file containing all signed agreements in a single location.

To the Members of the Board  
of County Road Commissioners of Charlevoix County  
March 31, 2006  
Page Two

We will review these comments during our next audit engagement. We have already discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform an additional study of these matters, or to assist you in the implementation of the recommendations.

Very truly yours,

  
Certified Public Accountants